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UNCLAS SECTION 01 OF 04 PRETORIA 000640

SIPDIS

SENSITIVE
SIPDIS

FOR CODEL PELOSI FROM CHARGE D'AFFAIRES DON TEITELBAUM

E.O. 12958: N/A

TAGS: OREP PGOV PREL ECON MARR KHIV SF

SUBJECT: SOUTH AFRICA SCENESETTER FOR CODEL PELOSI VISIT

REF: STATE 18241

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¶1. (SBU) Welcome to South Africa, an anchor country in our Africa policy. Since the end of apartheid in 1994, the African National Congress (ANC)-led South African Government (SAG) has made major progress toward establishing a vibrant democracy and market-based economy. The SAG has focused on political and economic transformation: closing the gap between the historically privileged and disadvantaged communities, primarily through government-provided housing, electricity, and water to the poor and creating employment and business opportunities. South Africa continues to face serious problems, including income inequality between blacks and whites, massive unemployment, entrenched poverty, violent crime, and a severe HIV/AIDS pandemic. Taken together, these problems are intensifying political tensions within the ANC-led ruling coalition and resulting in social unrest in some poor, black African communities. Your visit coincides with the SAG's preparations for March 1 municipal elections. It also coincides with the thorny political issue of the firing of former SAG Deputy President (and still ANC Vice President) Jacob Zuma related to corruption and fraud charges. Zuma also faces criminal charges for rape, which arose after his dismissal. The rape trial began February 13.

¶2. (SBU) Despite its problems, South Africa remains the continent's best prospect for establishing a successful democratic society with widespread prosperity as the SAG moves from political to - the second phase - economic transformation. South Africa plays a key role in promoting peace and stability in Africa, and is an important voice on global trade and nonproliferation issues. U.S.-South African relations are positive, as reflected by President Bush's July 2003 visit to South Africa and President Mbeki's reciprocal June 2005 trip to Washington. We share objectives on the African continent and work together closely on those issues.

POLITICAL OVERVIEW

¶3. (SBU) The African National Congress (ANC) dominates the

political scene in South Africa. President Thabo Mbeki began his current five-year term on April 27, 2004. The ANC won 70 percent of the vote and 279 of 400 seats in the National Assembly at the April 14, 2004 poll. A subsequent "floor crossing" period in September 2005, in which parliamentarians were allowed to switch parties, boosted the ANC's total to 1293. The Democratic Alliance (DA) is the largest of several small opposition parties in parliament, with 47 seats. The ANC leads the administrations in all 9 of South Africa's provinces. The ANC is part of a tripartite alliance whose other members are the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU).

14. (U) The ANC-led alliance is a broad-based political movement in which schisms have appeared in recent years, largely based on the SACP's and COSATU's opposition to the government's economic, HIV/AIDS, and Zimbabwe policies. However, the alliance is likely to hold together, at least in the short term. President Mbeki remains securely at the ANC's helm, although he is currently embroiled in managing internal tensions and domestic repercussions over the former Deputy President's firing related to corruption and fraud charges. Progress toward the ANC's goal of bringing economic power to the black majority has been slow, although there is an emerging black middle class. Mbeki's popularity, affected by continued high levels of crime, unemployment, a delayed response to the HIV/AIDS crisis, and the slow delivery of services to South Africa's majority population, fluctuated throughout his first five-year term. Recently, there have been scattered protests and riots among grassroots ANC supporters over service delivery and political jockeying. Nonetheless, the April 2004 election and subsequent "floor crossings" demonstrated that there remains no viable alternative to an ANC government, and the ANC is expected to win an overwhelming majority in upcoming March municipal elections.

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FOREIGN POLICY - FOCUS ON PROMOTING AFRICA

15. (U) South Africa has taken a high-profile role in promoting Africa's development. South Africa served as the first chair of the African Union until July 2003 and helped to establish continental institutions such as the Pan-African Parliament (which sits in South Africa), and the AU Peace and Security Council. President Mbeki is the driving force behind the New Partnership for Africa's Development (NEPAD), an African-developed program to strengthen economic and political governance across the continent and a framework for productive partnership with the international community. South Africa led the negotiations which ended the conflicts in Burundi and the Democratic Republic of the Congo, and it is playing a leading role in the AU mediation in Cote d'Ivoire.

16. (SBU) South Africa recognizes that, by virtue of its regional political, economic, and military clout, it has a responsibility to participate in peace support operations. Approximately 2,500 troops currently are deployed in UN and AU Missions in Burundi, DRC, Sudan, Cote d'Ivoire, and Ethiopia/Eritrea. While the U.S. has a strong policy interest in seeing South Africa expand and enhance its peace support capabilities, our ability to support these efforts has been limited by the 2004 suspension of FMF and IMET (about \$7 million per annum) military assistance because of the lack of an Article 98 agreement with South Africa. One positive development is South Africa's decision to participate in the African Contingency Operations Training and Assistance program (ACOTA) through which we can work together to enhance SANDF capacity for robust participation in multilateral peace support operations. The first ACOTA annual planning meeting will conclude immediately prior to your arrival.

¶ 7. (SBU) Zimbabwe remains a continuing, and often frustrating, challenge for President Mbeki. While it is clear that South Africa wants political and economic reform in Zimbabwe, its "quiet diplomacy" policy of behind-the-scenes talks has failed to produce results. SAG officials argue that additional pressure, such as sanctions, would have little effect on President Mugabe and could destabilize Zimbabwe (with spillover effects in South Africa). In recent months, South Africa appears increasingly concerned about the deteriorating economic situation in Zimbabwe.

¶ 8. (SBU) While overall U.S.-South African relations are positive, South Africa sometimes takes positions on global issues that run counter to U.S. interests. For example, South Africa recently abstained on the IAEA Board of Governor's resolution to refer the dossier on Iran's nuclear program to the UN Security Council. As current chair of the G-77 and former head of the Non-Aligned Movement (NAM), South Africa has taken up the cause of a greater "South" voice in international institutions, increased development assistance, an expanded UN Security Council, and lower trade barriers.

THE ECONOMY AND THE STRUGGLE TO TRANSFORM

¶ 9. (SBU) As the dominant and most developed economy in sub-Saharan Africa, South Africa has little in common with the other countries of the region. It is a middle income, emerging market economy with GDP per capita of \$4,613 (2004), akin to Chile, Malaysia, or Thailand. The South African government's fiscal and monetary policies are excellent. The ANC government steadily reduced the fiscal deficit from nearly 6 percent of GDP in 1994-95 to a nearly balanced budget in 2005-06. The forecast for the 2006-07 fiscal deficit is 2.2 percent as a result of expansionary policies. The South African Reserve Bank (SARB) is independent and committed to low inflation. CPIX (CPI minus mortgage cost)

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inflation has fallen from 12.4 percent at the beginning of 2003 to 4.0 percent (December 2005), within the SARB's official 3 to 6 percent target. Real GDP growth in 2004 climbed to 4.5 percent from 3.0 percent in 2003 as a result of strong consumer spending. Analysts believe that growth reached 5.0 percent in 2005.

¶ 10. (SBU) South Africa's single greatest economic challenge is to accelerate growth. South Africa's moderate growth since 1994, averaging 3.1 percent a year, has not been sufficient to address widespread unemployment and reduce poverty. The official unemployment rate, currently 26.5 percent, has only recently begun to decline, and is significantly higher among black South Africans than among whites. The economy has created few new formal sector jobs. Income inequality between white and black South Africans has increased slightly. Poverty is widespread. Fifty-six percent of black South Africans, but only four percent of whites, live in poverty. Nevertheless, the government has made strides in the areas of transfer payments and public services to close the gap. Nearly 1.8 million low-cost homes have been built, four million households provided with electricity, and ten million people connected to clean water.

The Government's broad-based Black Economic Empowerment (BEE) program provides ownership and employment opportunities to blacks and has helped the black middle class double in size since 1994.

¶ 11. (SBU) Since 1994, the United States Government has contributed approximately \$1.217 billion toward South Africa's development, plus \$201 million in credit guarantees. Nineteen U.S. agencies, including the FBI, CDC, Customs, and USAID, are represented at our Mission in South Africa: Embassy Pretoria and the three consulates in Durban, Cape

Town and Johannesburg. The Mission has 281 U.S. employees, and 564 local employees. More than 40 percent of the Mission staff provide regional services to other U.S. embassies in Africa. The Mission has embarked on an ambitious program to build safe office facilities. In FY05 we completed the New Consulate Compound in Cape Town, and in FY06 we will award the design/build contract for the New Consulate in Johannesburg. A wide range of U.S. foundations and NGOs are also at work in South Africa. Among them are the Gates Foundation (HIV/AIDS), the Ford Foundation (higher education), and the Rockefeller Foundation (adult education).

U.S.-S.A. TRADE AND INVESTMENT

¶12. (SBU) During 2003 and 2004, the U.S. and the Southern African Customs Union (SACU: South Africa, Botswana, Lesotho, Namibia, and Swaziland) held six rounds of negotiations on a free trade agreement (FTA). After progress stalled in the fall of 2004, former U.S. Trade Representative Robert Zoellick and his SACU counterparts met and reaffirmed their commitment to a comprehensive free trade agreement. In September 2005, negotiations resumed in Gaborone, where the two sides agreed to continue with smaller negotiating rounds while expert-to-expert consultations on issues new to SACU were conducted. The U.S. and SACU are currently discussing a date for the next round of negotiations.

¶13. (SBU) U.S.-South Africa trade grew 8 percent in the first 11 months of 2005, totaling \$8.7 billion. U.S. exports were up 24 percent at \$3.4 billion, while South African exports to the United States declined 1 percent at \$5.3 billion. In 2004, South Africa was the 32nd largest trading partner of the United States, equivalent to Norway or Chile. It is the largest U.S. export market in sub-Saharan Africa, twice the size of Nigeria and equal to Russia or Argentina. South Africa is the fourth largest beneficiary of AGOA. Its AGOA exports grew strongly in 2003 and 2004 (7 percent and 24 percent respectively), but declined in 2005 due largely to the expiration of the Agreement on Textiles and Clothing. Over 700 U.S. firms have a presence in South Africa with 85 percent using South Africa as a regional or continental center. South Africa's stable government, sound fiscal and

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monetary policy management and, by African standards, its large market are the primary attractions for U.S. businesses. U.S. foreign direct investment in South Africa grew sharply after 1994 but has slowed recently. The slowdown in direct investment is due to numerous factors including crime, uncertainty about Black Economic Empowerment (affirmative action) policies, labor regulations, HIV/AIDS and the slow process of privatization. Still, the U.S. is the second largest foreign direct investor in South Africa (\$4.9 billion at year-end 2004).

HIV/AIDS: A CRISIS OF EPIC PROPORTIONS

¶14. (U) South Africa remains the epicenter of the HIV/AIDS pandemic with the largest number of HIV infections in the world. HIV/AIDS is now the country's leading cause of death. Five to six million South Africans are now HIV-positive, including 2.9 million women. In 2005, an estimated 800,000 more citizens became infected and over 300,000 died from AIDS. AIDS-related deaths will create millions of orphans and generate additional social and economic disruption. The number of AIDS-related deaths and AIDS orphans is expected to climb by 2010 to 5.2 million and 1.5 million respectively. South African public health facilities suffer from an acute shortage of skilled personnel and laboratory and clinical infrastructure. Considerable investment in human resources and infrastructure is necessary to expand the national antiretroviral treatment program.

¶15. (SBU) About 120,000 of the five to six million HIV-positive South Africans are receiving antiretroviral (ARV) treatment. At the end of 2003 the SAG prepared and endorsed an operational plan to treat AIDS using ARVs in public facilities. Implementation of the plan has been slow in all provinces except Gauteng and Western Cape. While the pace is picking up in KwaZulu-Natal (KZN), it is likely that ARV drugs will not be widely available through government programs until late 2006 or 2007. South Africa has been a major recipient of Global Fund resources with major grants awarded to the Western Cape Health Department and a public-private consortium in KZN. Both provide some treatment funding.

¶16. (SBU) The President's Emergency Plan for AIDS Relief (PEPFAR) is beginning its third year of implementation working with public and private sector prevention, treatment, and care programs. To date, the U.S. has provided almost \$239 million through PEPFAR to support HIV/AIDS programs in South Africa, making it the largest recipient of Emergency Plan resources. The FY 2006 PEPFAR budget in South Africa is \$221 million. After two years of funding, the Emergency Plan supports nearly 50,000 people in ARV treatment through programs in all provinces. In addition, the South African military has expanded prevention programs and publicly collaborates with the U.S. military and NIH on ARV-based AIDS treatment research. The Cabinet has endorsed a comprehensive public sector HIV/AIDS treatment plan.

¶17. (U) South Africa has the strongest research and training capacity of any country in the region, making it an important partner in the fight against HIV/AIDS. USG agencies (including USAID, DHHS, DOD, and the Peace Corps) have worked with national and provincial health departments, the military, universities and NGOs to strengthen primary health care, prevention, disease surveillance and research. President Bush and President Mbeki confirmed last July a mutual commitment to expand HIV/AIDS collaboration, particularly through the Emergency Plan. The mission has prepared, in coordination with the government, a five-year strategic plan focused on treatment, prevention, palliative care, and the provision of care for orphans and other vulnerable children.

TEITELBAUM